

# Report of the auditor-general to the Limpopo provincial legislature and the council on Greater Giyani Local Municipality

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Greater Giyani Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **Basis for qualified opinion**

### Property, plant and equipment

6. I identified land belonging to the municipality that was not accounted for in the accounting records in accordance with SA standards of GRAP 17, *Property, plant and equipment*. The value of these properties could not be determined. Consequently, I was unable to determine whether any adjustments relating to property, plant and equipment stated at R412 961 499 (2014: R 338 903 022) as disclosed in the financial statements were necessary.
7. The municipality did not transfer completed projects amounting to R9 350 328 from work in progress to buildings and infrastructure assets in accordance with SA standards GRAP 17, *Property, plant and equipment*. Consequently there was a resultant impact on depreciation for the year and accumulated surplus.

### Revenue

8. The municipality did not reconcile on a monthly basis property rates revenue as disclosed in note 17 to the financial statements. I identified an unreconciled difference between the revenue system and valuation roll amounting to R6 374 596 as the municipality did not maintain a system of revenue reconciliation performed on a regular basis. Consequently I was unable to determine whether any adjustments relating to property rates stated at R28 668 162 in the financial statements were necessary.

### Provisions

9. The municipality did not recognise a provision for landfill site rehabilitation as required by SA standards of GRAP 19, *Provisions, contingent liabilities and contingent assets*. I was unable to determine the reliable estimate of the provision by alternative means as work from experts required to determine a reasonable estimate could not be obtained. Consequently liabilities in the financial statements have been understated. I was unable to determine the extent of the understatement as it was impracticable to do so.

### Irregular Expenditure

10. As disclosed in note 37, to the financial statements, the municipality incurred irregular expenditure of R4 480 605. Additionally I identified irregular expenditure amounting to R12 019 412 that is in contravention of the supply chain management requirements, which was not included. The municipality did not have adequate systems in place to identify and report on irregular expenditure incurred. Consequently I was unable to determine the full extent of the understatement in irregular expenditure as it was impracticable to do so.

## **Qualified opinion**

11. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Greater Giyani Local Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matters**

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Restatement of corresponding figures

13. As disclosed in note 34 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during 2015 in the financial statements of the municipality at, and for the year ended, 30 June 2014.

### Material impairments

14. As disclosed in note 7 to the financial statements, the municipality reviewed its basis for debt impairment calculation and wrote back impaired debt to the amount of R45 510 047.

### Material under spending of the budgets

15. As disclosed in the statement of comparison of budget and actual amounts, the municipality has materially underspent on its budget to the amount of R60 540 187. As a consequence, the municipality has not achieved all of its objectives in mainly the budget and treasury units.

## **Additional matters**

16. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Unaudited supplementary schedules

17. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

### Unaudited disclosure notes

18. In terms of section 125(2) (e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **Report on other legal and regulatory requirements**

19. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities/ objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to

identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

20. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the Greater Giyani Local Municipality for the year ended 30 June 2015:
  - KPA 3: Infrastructure Development and Basic Service Delivery on pages x to x
  - KPA 6: Good governance and public participation on pages x to x
21. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
22. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
23. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. The material findings in respect of the selected development priorities are as follows:

### **Usefulness of reported performance information**

#### **KPA 3: Infrastructure Development and Basic Service Delivery**

25. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 46% of the reported indicators and 47% of targets were not consistent with those in the approved integrated development plan. This was due to a lack of proper systems and processes for the planning of performance information and the absence of standard data definitions for each indicator and target.
26. Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 29% of the indicators were not well defined.

#### **KPA 6: Good governance and public participation**

27. I did not identify any material findings on the usefulness of the reported performance information.

## **Reliability of reported performance information**

### **KPA 3: Infrastructure Development and Basic Service Delivery**

28. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and/or technical indicator descriptions for the accurate measurement, recording and monitoring of performance, monitoring of the completeness of source documentation in support of actual achievements and frequent review of the validity of reported achievements against source documentation.

### **KPA 6: Good governance and public participation**

29. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets were not reliable when compared to the source information or evidence provided. This was due to a lack of standard operating procedures or documented system descriptions for the accurate recording of actual achievements and/or technical indicator descriptions for the accurate measurement, recording and monitoring of performance, monitoring of the completeness of source documentation in support of actual achievements and frequent review of the validity of reported achievements against source documentation.

## **Additional matter**

30. I draw attention to the following matter:

### **Achievement of planned targets**

31. Refer to the annual performance report on page(s) x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities/ objectives reported in paragraph(s) x to xx of this report.

## **Compliance with legislation**

32. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## Annual financial statements

33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue and expenditure identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

## Procurement and contract management

34. The performance of contractors was not monitored on a monthly basis, as required by section 116(2) (b) of the MFMA.
35. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 116(2) (c) of the MFMA

## Human resources management

36. Positions in senior management were vacant for more than 12 months.

## Expenditure management

37. An effective system of expenditure control, including procedures for the approval of funds, was not in place, as required by section 65(2) (a) of the MFMA.
38. Reasonable steps were not taken to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA.

## Revenue management

39. An adequate management, accounting and information system which accounts for receipts of revenue was not in place, as required by section [64(2) (e) / 97(h)] of the MFMA.

## Assets management

40. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2) (a) of the MFMA.
41. An effective system of internal control for assets including an asset register was not in place, as required by section 63(2) (c) of the MFMA.

## Consequence management

42. Irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2) (a) (ii) of the MFMA.

## **Internal control**

43. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

## **Leadership**

44. Oversight responsibility regarding financial and performance reporting and compliance and related internal controls was not exercised.
45. The accounting officer did not implement HR management effectively to ensure that adequate and sufficiently skilled resources are in place.
46. There was no detailed review of the financial statements and the annual performance report, resulting in several misstatements not identified and corrected.

## **Financial and performance management**

47. The financial statements and other information to be included in the annual report are not reviewed for accuracy and completeness by the accounting officer.
48. Controls over daily and monthly processing and reconciling of transactions were not implemented by the accounting officer
49. Compliance with laws and regulations was not reviewed and monitored by the accounting officer.

## **Governance**

50. The internal audit unit is not fully capacitated and could therefore not perform all its functions as per the approved audit plan.

*Auditor-General*

Polokwane

08 December 2015



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